"technology neutral." Clearly, the Telesis model, or similarly unverifiable models, would be unsuitable for calculating the size of a universal service fund.

Para. 34 The proxy cost model should study business lines. This is necessary to ensure that network efficiencies associated with economies of scale and economies of joint production (economies of scope) are captured in the cost estimates generated by the proxy model. If these economies are not captured, it is likely that the costs of residential basic service would be overstated. While the version of the BCM submitted to the FCC did not calculate the costs of business lines, we understand that the model is being modified by the economic and engineering consulting firm Hatfield & Associates and such modifications may allow the model to provide cost estimates for business lines.

Experience in California with both a modified version of the Benchmark Cost Model and the proxy model proposed by Telesis leads us to believe that the Benchmark Cost Model proposed by the Joint Sponsors is superior to the proxy model proposed by Telesis. The Benchmark Cost Model relies on public data. The assumptions inherent in the model have been clearly spelled out and sponsors have provided clear explanations of how the study results were derived.

The Basic Service Rate Element Should Not Be Required to Shoulder the Burden of the Total Cost of the Loop -- Either Directly or Indirectly

Regardless of the model that is used, the Commission must ensure that the basic service rate element is not required to shoulder the burden of the total cost of the loop -- either directly, by applying the full cost of the local loop to basic rate elements, or indirectly, by allowing other services to be priced in such a manner as to exclude the costs of the loop. § 254 (k) of the Act requires that "the services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide these services." (Emphasis Added). Importantly, the Conference Report on the Act points to the fact that the Senate bill (S.652) required federal and state guidelines to ensure that universal service should bear "no more than a reasonable share (and may bear less than a reasonable share) of the joint and common costs of the facilities used to provide both competitive and noncompetitive services."[7] (Emphasis Added) The House receded to the Senate on this matter.[8] Clearly, the law requires that universal service, and by inference basic service, should not bear the full cost of the loop.

The Commission has stated its intent to commence a rulemaking to implement this provision. We believe it is important that the Commission consistently adheres to this principle in the development of proxy cost models and in structuring Universal Service Fund support. Requiring basic exchange service customers to provide additional universal service support through additional end user charges (including those proposed in ¶ 114, addressed below) would be contrary to the Act.

3. Who is eligible for support

A Universal Service Fund Should be Competitively Neutral, and Eligibility for High-Cost Assistance Should Be Dependent on a Carrier's Assumption of Minimum Service Responsibility

Para. 41 To Receive Universal Service Fund support targeted to a defined service area, such as a LEC wire center, any carrier should offer basic local telephone service on an unbundled basis to all customers in that area. All eligible carriers who meet the Commission's designated service responsibility should be eligible for

[7] House of Representatives, 104th Congress, 2nd Session, Report 104-458, Telecommunications Act of 1996, Conference Report, January 31, 1996, p.129.

[8] Ibid., p. 134.

support from the fund, provided that they meet the requirement to use fund revenues to provide basic service at prescribed rates. Permitting all authorized carriers to draw from the fund should provide incentives for competitors to serve rural areas, because these carriers would reduce their net contributions to the fund. This, also, would encourage competition by permitting customers of LECs to choose among competing local carriers.

VI. OTHER UNIVERSAL SERVICE SUPPORT MECHANISMS

Para. 114 The Commission should not implement the proposal in ¶ 114 of the Notice, which contemplates eliminating or reducing the subscriber loop portion of the interstate CCL charge and permitting LECs to recover these costs from end users. This proposal is founded on the incorrect assumption that the loop is a direct cost of local service. We addressed this issue extensively in our comments to the Joint Board on CC Docket 80-286 and we urge the Commission to carefully consider those comments. Continuing to charge interexchange carriers for their use of the loop does not run counter to the notion that subsidies must be explicit. Several detailed investigations carried out by state commissions have shown that basic local service is not subsidized. The loop is a joint cost of all services that utilize the local network, such as toll and local service. The Basic Service Rate Element should bear no more than 50 percent of loop costs.[9] Furthermore, LECs have extensively redesigned distribution plant to accommodate narrow band data and broadband transmission. Customers desiring to purchase basic voice grade service should not be forced to pay the costs of services they do not want or need. By assuming that

[9] NASUCA Comments, p. 13-16.

the loop is a direct cost of local service, the Commission would significantly overstate the cost of basic local service. Moreover, the proposal would result in interexchange carriers getting a free ride at the expense of customers with little or no competitive choice. Any benefit these customers might see from competition would be eliminated by a rate increase in the form of an increased end user charge.

CONCLUSION

NASUCA requests that the Joint Board consider and adopt these comments in its final recommendations.

Respectfully submitted,

NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES

By: Robert F. Manifold

Robert F. Manifold
Assistant Attorney General
Public Counsel Section
Office of the Attorney General
State of Washington

On behalf of:
NASUCA
1133 15th Street, N.W., Suite 550
Washington, DC 20005
(202) 727-3908

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

In the Matter Of:	:	
	:	
Amendment of Part 36 of The Commission's Rules And Establishment Of a Joint Board	:	CC Docket No. 80-286

COMMENTS OF THE
NATIONAL ASSOCIATION OF STATE
UTILITY CONSUMER ADVOCATES
(NASUCA)

NATIONAL ASSOCIATION OF STATE
UTILITY CONSUMER ADVOCATES
1133 15th Street, N.W. Suite 575
Washington, DC 20005
(202) 727-3908

DATED: October 6, 1995

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SUMMARY

NASUCA recognizes the need to revise the current regulations so as to redetermine how high cost funds should be distributed. However, NASUCA submits that it continues to be extremely important to make certain that the goals of Universal Service are continued through the operation of such high cost funds. The FCC should make certain that any funds paid to the LECs for this purpose are actually used to hold down the cost of maintaining telephone service.

NASUCA generally favors not relying on experienced costs in order to determine eligibility for high cost assistance. Instead, a proxy method should be used. Such a method would base assistance payments upon the cost of an efficiently engineered network rather than the investment and expenses actually incurred. The wire center would be the best unit upon which such cost could be based. NASUCA does not favor a limitation which would exclude carriers from the receipt of assistance based upon the income of the customers served in that area.

The proposed loop cost allocation - 50% to toll and 50% to local - is a reasonable method of determining service costs. The FCC should not impose any restriction on using this same cost allocation method by state commissions.

NASUCA also supports the proposal to allow state commissions to allocate high cost assistance from such a fund within the state.

BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

IN THE MATTER OF:	:	
	:	
AMENDMENT OF PART 36 OF THE COMMISSION'S RULES AND ESTABLISHMENT OF A JOINT BOARD	:	CC Docket No. 80-286

COMMENTS OF THE
NATIONAL ASSOCIATION OF STATE
UTILITY CONSUMER ADVOCATES
(NASUCA)

INTRODUCTION

On July 13, 1995, the Federal Communications Commission ("FCC" or "Commission") released a Notice of Proposed Rulemaking and Notice of Inquiry ("Notice") in this matter. In this Notice, the FCC solicited comments relating to a number of proposals concerning changes to the current methods used to provide interstate high cost assistance to local exchange carriers ("LECs") through a Universal Service Fund.[1] Notice at ¶ 1. Presently, the Commission calculates average costs per loop by study area and these costs are used to determine which LECs shall receive assistance from a Universal Service Fund ("USF"). In addition, the FCC provides

[1] Throughout these Comments NASUCA will discuss high cost assistance or a Universal Service Fund interchangeably to relate to the funding mechanism which is the subject of this Notice.

assistance to cover switching costs through a process known as Dial Equipment Minute ("DEM") weighting. Id.

In the Notice, the FCC notes that various changes have occurred in the telecommunications industry such that it is appropriate to reevaluate the means of providing this assistance. Id. at ¶ 3.

The National Association of State Utility Consumer Advocates ("NASUCA") submits these Comments. NASUCA is a national association of 41 state authorized members representing consumers in 38 states and the District of Columbia. NASUCA members have been active participants at the state and federal level in the creation of various policies designed to provide assistance to the providers of telephone services in high cost areas.

PRESENTATION OF COMMENTS

The following discussion represents the Comments of NASUCA. As requested by the FCC in its Notice, the NASUCA Comments will cross reference and parallel the organization and headings contained within the Notice. Notice at ¶ 8. However, where NASUCA does not wish to present any discussion concerning a topic addressed in a heading, the NASUCA Comments may omit the heading entirely. Where the NASUCA Comments use a heading not provided in the Notice, the Comments will present that heading in ***underline and italic form***.

I. INTRODUCTION AND BACKGROUND

NASUCA agrees with the FCC that USF funds should be targeted to high cost areas that require support in order to maintain universal service. Id. at ¶ 7. NASUCA concurs with the FCC in many of the views set forth in the Introduction. We recognize that changes in technology, market structure and regulatory policies have occurred since the USF was instituted in 1984 and these changes may require further revision in how high cost assistance requirements are calculated and distributed. Id. at ¶ 3. NASUCA also shares the concern of the FCC that the application of high cost assistance should not form a barrier to competition. Id. at ¶ 4.

However, NASUCA also wishes to note its concern with the discussion in the Notice suggesting that any growth in the USF should be limited in order to free revenues to be transferred to other programs. Id. at ¶ 7 n.16. The purpose of high cost assistance mechanisms is to promote the universality of basic telephone service by providing assistance to those subscribers who are located in high cost areas. Such assistance should be provided by contributions from all of the participants in the telecommunications markets. The existing responsibility of funding for the USF should be maintained and extended to include all telecommunications providers who connect to the public switched network, including but not limited to, interexchange carriers, Local Exchange Carriers ("LECs"), Alternative Access Providers, Private line, Cellular and Microwave carriers and other forms of service providers. The advent of competition for local exchange service may also effect the amount of funds which may be required in any USF. While it is too early to determine what the effect of any such change will be, it should not be assumed that the USF will be frozen or progressively diminish in size, particularly if such funds now become available to a large group of competitors as well.

The Commission Should Continue To Make Certain That The Original Goals Of Universal Service Are Maintained Through Any Proposed High Cost Assistance Mechanism, Even As Competition Emerges For Local Exchange Service.

NASUCA emphasizes that the FCC should hold to the original intent that created the Universal Service Fund. It is important that policies are adopted that allow all citizens access to the basic network regardless of how the FCC's funding mechanisms may change. Such Universal Service Fund assistance should be continued and applied in order to lower local exchange rates and maintain universal service.

While national debate is focusing on bringing market forces to bear on the delivery of local exchange telephone service, the FCC should be acutely aware that, in most areas, the LECs continue to be the only provider of local exchange service. Moreover, the LECs often cite potential local exchange competition as a force which will eliminate revenue contribution from low cost areas. As such contribution has been used to fund service in high cost areas in the past, such nascent competition is often cited as a reason for raising local exchange rates. If such rate increases occur, future events may make it all the more important to adequately fund and apply a USF.

The FCC should establish a high priority for the adoption of rules that preserve and enhance the extension of the local exchange telephone network to all users as the bedrock of a nationwide telecommunications policy. The network serves both a social as well as an economic function. Society is better off if all our citizens have access to basic local exchange telephone service. The network has a greater economic value for the same reasons. If the FCC is to err, better that the Universal Service Fund should be over-funded, rather than under-funded, in order to ensure that the network is extended to as many users as possible.

Any USF Mechanism Should Make Certain That The Price Charged For The Services Which The Fund Is Intended To Support Actually Reflect The Payments Provided

Throughout the discussion in the Notice, it seems to be assumed the USF is intended to function as a mechanism which will support universal service by producing rates low enough to maintain customer subscription. NASUCA asserts that, in any high cost assistance mechanism employed, such assistance should actually be used to reduce or maintain rates low enough to meet the goals of universal service. However, there is very little discussion in the Notice as to how it may be determined whether the benefits of high cost assistance are actually passed on to the consumer in order to ensure lower rates. Moreover, it should not simply be assumed that an increase in LEC revenues will necessarily lead to a related reduction in rates. Since many states now set rates based upon some form of price cap or other basis which does not vary directly with current costs, increases in revenues will not necessarily translate into reductions in rates.

It is imperative that the Commission focus on price in its application of the Universal Service Fund. Even if LECs can demonstrate high costs, high cost assistance should not automatically be provided unless the LECs provide assurance that such assistance will actually be applied to rates. Unless this is done, any increased support created by a revised USF will only benefit stockholders and not the consumers who are intended to benefit. Moreover, if the Commission requires high cost assistance to be passed through local exchange rates to the benefit of ratepayers, it will also then be impossible for high cost assistance to be misused to subsidize competitive ventures or reduce rates in services more subject to market competition.

NASUCA proposes that the FCC should develop some means of determining a permissible level of rates charged as well as qualifying costs. For example, it may be appropriate for the FCC to determine that high cost assistance will not be provided in any area if the rates charged in that area are more than a fixed percentage above a national average.[2] While it may be appropriate to allow for some waiver of this requirement in certain circumstances, the rates charged after the receipt of high cost assistance should be carefully monitored.

Further, NASUCA suggests that certain forms of rate design are at cross purposes with the goals of high cost assistance and should be prohibited for any LEC receiving such assistance. LECs should not be permitted to charge more for local exchange service depending upon the distance between a customer and a central office, i.e. the application of rates based upon the distance from the customer to the central office.[3] While the FCC may intend to encourage LECs to provide low cost rates to customers being served at some distance from the central office, a LEC may nonetheless

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[2] As should be the case with all data submitted to the Commission for use in the regulatory process, we believe the Commission should actively audit and monitor the quality and the veracity of such reports.

[3] NASUCA is also concerned that any incentive to charge distance sensitive rates may be increased by the possibility of competing local exchange service being offered to customers located in close geographic proximity to the central office. The institution of an appropriately designed USF would counter any pretext that a LEC might have to charge distance sensitive rates.

structure its rates to apply disproportionate rate increases to these same customers. Thus, if a company resorts to geographical pricing by increasing rates for captive customers in low density areas distant from the central office, it may risk the loss of high cost assistance funds.

III. PROPOSALS FOR REVISION OF THE UNIVERSAL SERVICE FUND

A. AS AN ADJUNCT TO ANY OF THE USF ASSISTANCE METHODOLOGIES, USE HIGH-COST CREDITS TO DELIVER HIGH-COST ASSISTANCE IN A COMPETITIVELY-NEUTRAL MANNER.

Para. 25. Eligibility For High-Cost Assistance Dependent On Carrier's Assumption Of Minimum Service Responsibilities.

To receive USF support targeted to a defined service area, such as a LEC wire center, any carrier should offer basic local telephone service on an unbundled basis to all residential customers in that area as the Notice suggests. Id. at ¶ 26. Local telephone service may be bundled with other products and services on an optional basis, but it must also be offered by the carrier as a separate, stand-alone service. For this purpose, we recommend that basic local exchange service should include a single party voice-grade access line with touch-tone dialing; a directory listing; access to operator services, directory assistance, emergency services, Telecommunications Relay Service and such blocking as is offered under tariff by the incumbent LEC; and equal access to long distance carriers. Furthermore, this service should meet or exceed all applicable standards of service quality and customer satisfaction established for the defined area.

Para. 27. Determining the Level of High-Cost Credits under a Proxy or a Reported-Cost Methodology.

Under the existing funding system, the existence of high costs upon the LEC's books is used to qualify a LEC for receipt of USF assistance. Such a system could encourage qualifying LECs to overinvest or operate inefficiently. NASUCA does not believe that any long term solution should continue such incentives. NASUCA suggests that it is not prudent to continue to allow such high book costs to be used as a means of determining USF eligibility.

NASUCA generally supports the use of proxy factors to develop an appropriate level of support. NASUCA proposes that it is not prudent to develop a high cost proxy from the existing data base of costs. Such proxies should be developed where practicable to distribute high cost funds. The variation of loop costs among telephone companies may very well not be explainable by physical and demographic characteristics and such factors may not be adequate to develop proxies.

The FCC should consider a theoretical engineering model - or proxies - in lieu of actual costs to develop cost models.[4] Such proxies could be based on population density and customer distance from the central office. Subsequently, additional variables may be applied to the model to reflect the impact of terrain and other environmental factors if further study justifies such action. Since the impact of proxy costs based on least cost engineering could result in substantial re-distribution of the high cost funds to qualifying LECs, then it would also be necessary to implement a transitional process to minimize adverse affects on customers.

NASUCA has substantial concern regarding the proposal to base high cost support upon the use of Census Block groups. Currently, high cost assistance is based on the average cost of a LEC's entire service area within a state. NASUCA recognizes that this aggregated view does not properly recognize all areas requiring high cost support. However, the disaggregation to Census Block Groups of approximately 400 households pose some obvious problems. For example, Census Block Groups do not recognize existing exchanges or boundaries of existing providers. Moreover,

[4] NASUCA emphasizes that the proxy models endorsed in these Comments are only intended to be used for the calculation and distribution of high cost funds. NASUCA cautions that such a cost model may not be applicable for ratemaking purposes.

such Census Block Groups do not appear to have any relationship to the existing cost data bases used in the industry.

Second, we do not believe it is in the best interests of consumers for the FCC to develop proxies from the reported costs of the companies, no matter what disaggregation is used. The FCC should require proxies to be supported by information necessary to determine how the proxies are developed, including the source of any cost data used in their development.

Para. 30. <u>The Significance Of Subscriber Characteristics In Distributing High-Cost Credits.</u>

The Order also raises an issue and requests comment on the limitation of USF "by considering the financial circumstances of the customer." Order at ¶ 31. The Order explains: "We seek comment on this subject and, in addition, on the question of whether an assessment of need for USF should be based solely on income, or should reflect additional factors, such as the cost of living in individual high-cost areas." <u>Id.</u>

NASUCA submits that the Commission should not base eligibility for high cost funds upon the financial circumstances of the customer. Any such test would present a substantial revision from the type of information now used to assess funding requirements and is inappropriate.

NASUCA opposes restricting the application of USF payments only to customers with low incomes. Such a restriction is at odds with the fact that Universal Service creates an external benefit for the entire network. While this benefit is not directly quantifiable, it clearly has great economic value - to all of the subscribers to the network as well as the companies which sell services on that network.

Moreover, the fundamental goal of encouraging Universal Service is not advanced by only offering USF support to the most needy. The goal should be to retain a high level of telephone subscription, even if the level of customer charges does not fully cover the costs required to serve every consumer. NASUCA suggests that, if faced with such rate increases, even individuals above the poverty level may drop telephone service rather than pay the full cost to serve such customers.

Regardless of how accurately the cost of the local loop in any particular exchange can be estimated, ultimately the cost of any line should not be considered as the exclusive cost responsibility of any particular customer. The opportunity to reach customers throughout the network is a value of the entire network. If customers in various regions no longer subscribe to telephone service because USF support is only available to the impoverished, the network and its customers are all disadvantaged as a result. Thus, NASUCA suggests that an income-based USF support system would cause a loss of network value and customer connectivity which is at the very heart of Universal Service concerns. In order to avoid the erosion of universal service, a USF restriction only to low income customers should not be allowed to obscure the general benefits of Universal Service to the entire network.

Moreover, any attempt to restrict such funding based on income could well place the FCC and the utilities in the position of ordering customers to either prove that they are impoverished or face large rate increases. Regulatory intrusion into customer's personal financial status should be avoided.

NASUCA would add, however, that it does not oppose additional "lifeline" support programs at the State level to supplement the ability of low-income customers to obtain basic telephone service. The purpose of the Universal Service mechanism is to ensure that <u>all</u> consumers have access to reasonably priced service. Supplemental "lifeline" assistance should be provided -- at the states' discretion -- to enable even the lowest income consumers to connect to the network.

B. OPTION ONE: MODIFY THE CURRENT RULES BUT CONTINUE TO BASE HIGH-COST ASSISTANCE ON CARRIERS' REPORTED COSTS.

The FCC Should Phase In Any Revision Of The Current Rules Which Use Reported Costs to Calculate High Cost Assistance

If the FCC does revise the current use of reported costs to calculate the USF, any such revision could significantly impact the revenue structure of the many small LECs currently receiving this support. To maintain rate stability for the customers of these companies, any modifications should be implemented gradually and support funds should be available to cushion the potential rate shock for residential customers. The transition period in which these modifications are implemented should be at least five years, so that the impact on a company's revenue is at most 20% of the original support level per year. Also, sufficient support should be made available to customers of affected LECs in order to protect customers from burdensome rate increases.

Para. 35. Exclude Administrative Costs From The Loop Costs That Form The Basis For High-Cost Assistance.

NASUCA supports the exclusion of administrative costs from the calculation of high cost assistance. Administrative costs are the most manageable of all expenses, and are therefore the most likely to be manipulated. By the exclusion of such administrative costs, the FCC would target assistance to those areas where it can be proven that high costs prevail.

Option One-C: Combine The DEM Weighting And USF Programs By Basing High-Cost Assistance On Both Local Switching And Loop Costs.

Allocation of Loop Costs on a 50%/50% Basis to Local Services and Toll.

In the Order, the Commission has also proposed an additional method of calculating costs for the purpose of distributing high cost assistance. Order at ¶¶ 51-54. Under this method, total switching and loop costs would be combined and allocated between local and toll services. Once local service costs are isolated, then high cost assistance funds would be distributed based upon such local service costs.

NASUCA generally supports the calculation of loop and switching costs as accurately as possible in order to distribute the amount of Universal Service funds available in an appropriate manner. It is also appropriate to combine these two categories of costs to determine the total of local costs necessary to provide these services.

Any method which attempts to isolate local service costs will necessarily require the apportionment or allocation of loop costs between toll and local services.[5] Order at ¶ 52. As stated in the Notice, 25% of loop costs are currently allocated to the interstate jurisdiction with the remaining 75% of costs separated to the intrastate jurisdiction. Id. The Order proposes that an additional 25% of costs now allocated to the intrastate jurisdiction would be allocated to intrastate toll leaving 50% of loop costs to be allocated to "represent local service costs." Id. NASUCA supports this proposal.

Any allocation of loop costs between the categories of toll and local services is necessarily a difficult matter. Often such allocation is criticized as arbitrary and inappropriate.

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[5] NASUCA suggests that the allocation of loop costs may be used under Option One (the use of reported costs) or Option Two (the use of proxy factors).

However, it is entirely appropriate to recognize that the loop is a joint cost used to provide many services including toll and local services. Thus, NASUCA considers the FCC proposal to allocate 50% of loop costs to toll and 50% to local services to be appropriate. This is especially true given the current range of services provided and the importance of achieving a reasonable apportionment of loop costs in order to properly distribute Universal Service funds.

Loop costs must be considered as joint costs of providing all services. All telecommunications services which consumers purchase jointly use the same local loop. Whether a residential customer makes a local call, purchases intrastate or interstate toll services, or buys an optional service such as call waiting from the local switch; all of these services are now dependent upon the wire loop which connects the customer to the central office. Without the existence of this loop which connects the customer to the central office, all of these services would be impossible. In this sense, loop costs are a shared cost of the entire family of services which use that loop.

The shared nature of the common line is an issue that many state regulatory commissions have considered over the years. For example, in Pennsylvania Public Utility Commission v. Breezewood Telephone Company, 74 Pa. PUC 431 (1991), the Pennsylvania Commission considered the joint nature of loop costs for the Breezewood Telephone Company ("BTC") as follows:

> We want to state that we consider the costs associated with the loop from the central office to the customers premises a non-traffic sensitive joint cost. We further state that the reductions in CCLC are steps in the right direction.
>
> AT&T states that the Recommended Decision is not clear on whether NTS costs are joint costs of providing local and toll services. It asserts that our Final Order should declare that dial-tone line costs are not "joint costs" of various services, but instead are the costs of

> establishing the physical connection between each customer's premises and the Company's central office.
>
> There is no dispute that both the local customer and AT&T make use of the same local network to complete both local and interLATA calls. If it were not for the existence of the local network, AT&T would be required to construct at considerable expense an alternative means of access to the local customer. <u>We find that CCLC is the cost of compensating BTC for the use of the "common line," and as such, CCLC clearly pays for a service received by AT&T. Thus, dial tone line costs are joint costs</u>.

<u>Id.</u> at 494 (emphasis added).

Moreover, similar conclusions have been reached by other states which have considered the same issue. For example, Colorado, in its cost allocation regulations, discusses the manner by which rates should be set in view of cost studies performed for any service. 4 CCR 723-30, Rule 4(2)(a)(iii). These Colorado regulations, as promulgated by the Colorado Public Utilities Commission and made effective July 30, 1993, state as follows:

> As an example, consider the access loop. The access loop is not a separate service but rather is an input necessary for the provision of many telecommunications services. As such, <u>costs associated with the access loop will not appear in the total service long run incremental cost of any single service requiring the access loop but will appear as part of the total service long run incremental cost of the entire group of services requiring the loop</u>. Consequently, prices must be set so that the sum of the revenues from all services requiring the access loop covers not only the sum of the total service long run incremental costs for the individual services but also the shared cost of the loop.

<u>Id.</u> (emphasis added). Similarly, the New Hampshire Public Utility Commission has stated as follows:

> The commission is well aware of the [New England Telephone's] claim that basic local exchange service has been and continues to be subsidized by toll. In the past, the notion of various services contributing to the support of basic exchange has been reinforced by cost studies that have served to demonstrate that the 'contribution' paid by customers of other services represents a disproportionately

greater share of the company's incurred costs. These studies have served to mislead due to the company's decision to assign [dial tone] costs to local exchange services despite the fact that both interstate and state toll services are provided over local NTS facilities. Without local exchange facilities there would be no mechanism to connect interexchange services to the majority of customers premises. Since clearly the availability of the local network for toll use is a benefit to interexchange carriers and all toll customers, the commission believes that assignment of [dial tone] costs solely to local exchange services is unreasonable.

New England Telephone Generic Rate Structure Investigation, New Hampshire Public Utilities Commission, DR 89010, slip op., March 11, 1991 at 39-40, 76 N.H. PUC 150, 166 (1991).

The Florida Public Service Commission also ruled as follows:

Upon consideration, we must reject the proposition that no NTS costs should be recovered from access charges. We agree with Quincy, Sprint, FACT and Public Counsel's arguments on this issue. Further, we believe that the IXCs, through their respective toll customers, benefit from the existence of the local network and that they should make a contribution towards its support.

. . .

As we stated in Order No. 12265, in response to previous attempts to persuade us to accept the "no NTS" position, "The notion that an IXC should pay nothing for the subscriber loop because its use does not impose additional costs on the LEC is ill founded and contrary to common business practice, which is to charge customers for use of fixed cost facilities in the price for goods and services." It is appropriate that each service provide some contribution toward the fixed costs common to those services.

. . .

Public Counsel's witness Kahn conducted a stand-alone cost analysis of both local and toll services. Dr. Kahn testified that the result showed that the existing rate structure is subsidy-free, and that revenues from local and toll services are above their respective incremental costs and below their respective stand-alone costs. Accordingly, both services benefit from the provision of the other, as

> neither is provider of nor the recipient of cross-subsidies. U.S. Sprint's witness Cornell stated she ". . . happens(s) to agree with witness Kahn that anything between incremental and stand-alone is neither subsidizing nor subsidized". We agree.

Re: Investigation into Nontraffic-sensitive Cost Recovery, Fla. PSC, 89 PUR4th 258, 265-66 (1987). Thus, it has been well established in many decisions of state commissions that loop costs are joint costs of many services and may properly be apportioned between local and toll services.

Clarification that Local Service Includes All Services Provided Locally on a Voice Grade Network.

NASUCA also requests some clarification of the terms "toll costs" and "local service costs" so that these descriptions are appropriately applied. It is obvious that there are many services provided over current networks other than toll and local exchange calling. For example, call waiting service is purchased so that when another call is placed to the subscriber, while the telephone is being used, the local switch signals the caller over the line that another call is waiting. This should be considered as a local service - but a type of service different from basic local exchange service. Also, there is currently much discussion of the possibility of providing video services over local distribution facilities. Some of this video programming may be local in origin while other video programming may use various combinations of interexchange and interstate facilities.

NASUCA suggests that the Commission may wish to clarify that the proposed 50%/50% loop allocations are meant to apply to the range of services using the voice grade network currently in place. Thus, the 50% allocation to "local service costs" would relate to all local services which make use of the local switch but do not use the type of interexchange or interstate facilities generally associated with toll calling. It should also be made equally clear that the 50% "local service costs" allocation is only meant to apply to a voice grade loop and not to any additional costs which